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The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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## The Tide Of Protectionism . . .

A tidal wave seems to be heading our way in the form of a new round of protectionism. It follows wave after wave of imported goods that have already crested at our shores, resulting in the largest trade deficit in our nation's history. As a result, Congress is wading into a flood of bills to curb imports. Everything from shirts, sweaters and shoes, to waterbeds, to ferroalloys and lumber may well be subject to import controls in what is shaping up as the greatest deluge of protectionist legislation in the postwar era.

What is more, the protectionist drive is bipartisan. Both Democrats as well as Republicans in the Congress are behind these various efforts to hold back the tide of foreign-made merchandise. The Congress is seizing the initiative in trade policy from the Administration. Ordinarily a leader in such matters, the White House has been unable to come to grips with the issue for several reasons. First, President Reagan supports free trade, but many of his constituents both in the business community and elsewhere do not totally share this view. In addition, the Administration is widely seen as having contributed to the problem by running huge deficits in its budget. This led to high real interest rates, which attracted funds from abroad, boosting the value of the dollar and, in turn, making exports more expensive and imports cheaper. Finally, the President is concerned about relations with other countries and the impact that protectionist legislation might have on our political and military allies around the world.

## . . . Is Rolling In . . .

Like so many things in economics, our massive trade deficit with Japan, Europe, Canada, Latin America and others that has hurt many domestic producers is not without some benefits. For one thing, U.S. consumers have been able to pick and choose from a vast array of foreign-made goods at relatively low prices. In several instances, such as videotape recorders, pocket calculators and Walkman-type portable radios, these products aren't even made in the U.S. Even some of what we buy under American brand names is made overseas. Just about every auto made in the U.S. contains components produced in some other country, as is the case with such items as computers and copy machines.

It may be true, as a number of domestic manufacturing industries assert, that many jobs have been lost due to competition from abroad. However, it is also a fact that, from an employment standpoint, the U.S. has long since become a service economy, where, for most industries, imports are either essential, complementary, or relatively unimportant. Three-quarters of nonfarm workers in the U.S. are now employed in transportation, banking, insurance, real estate, government, and retail trade. Finally, our purchases of foreign-made goods have helped other countries grow. Our trading partners from the developed world would probably be in recession, were it not for their enhanced ability to sell here, while developing countries' debt burdens would undoubtedly be greater.

## . . . As Efforts Are Made . . .

This is not to argue for the status quo. Current trends in our trade and balance of payments cannot continue for long without some serious consequences. For the United States has just joined the ranks of the world's debtor nations, owing foreigners more than they owe us—the first time this has happened in some 70 years. By the end of this year our foreign debt outstanding will swell beyond $100 billion. That would nearly equal the amounts owed by Brazil or Mexico. One year later, our foreign debt could total over $200 billion. And by the end of this decade, extrapolating current trends, our net foreign indebtedness could well reach $1 trillion—more than the foreign debt of all the world's other debtor nations *combined*! The interest alone would total $100 billion annually by the time the 1990s come into view.

When a nation owes more abroad than foreigners owe to it, several things happen. First, obviously, the flow of dividend and interest payments leaving this country exceeds those payments coming in. If foreign lenders were to invest their interest receipts here, our living standards would not suffer, at least in the near term. But if these foreign lenders decide to bring their interest income home, it would cause a reduction in living standards here. Another

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consequence is that the debtor nation (in this case, the U.S.) must devote a growing portion of its economic output to paying its foreign bills. Indeed, we will ultimately have to run surpluses on our trade accounts to service our external debt—not too easy, when you realize that it was trade deficits that got us into this position in the first place.

Becoming a net debtor nation makes the U.S. more dependent on outside sources for funds. And if foreigners decide to cash in their chips and get out of dollars, we'd be in for a new round of problems. For one thing, the dollar would plunge. And while those businesses that have been hurt by the strong dollar might not find this unwelcome, it could lead to higher interest rates if the Federal Reserve decides to cushion the dollar's slide. This, in turn, could set off a new recession. For another, the Treasury, which relies on foreigners to purchase sizable chunks of Government securities, would have to seek buyers elsewhere—meaning inside the U.S. This would put additional upward pressures under interest rates.

Finally, as a debtor nation, we have become a net importer of capital. We are now pulling money out of the international capital markets just when the developing countries need these funds the most. This impairs their ability to build up their own economies. Fortunately, the dollar has declined

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | 8/14/85 | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 176.605 | + .608 | +18.668 |
| Loans to Depository Inst. | 1.144 | + .309 | – 7.548 |
| Float | 13.211 | + .104 | + 4.301 |
| Total Reserve Bank Credit | 191.524 | + 1.005 | +15.402 |
| Treasury Deposits with Federal Reserve Banks | 3.032 | + .234 | – .088 |
| Currency in Circulation | 188.341 | + .657 | +11.585 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 124.437 | – .547 | + 5.317 |
| | 8/14/85 | | |
| Member Bank Reserves: | | | |
| Total Reserves Held | 42.677 | + 7.33 | + 4.602 |
| Excess (Deficiency) | .674 | – .286 | – .025 |
| Net Free Reserves | .193 | – .356 | + .506 |
| | | % Change Since Three Months Ago* | % Change Since Year Ago |
| **Monetary Aggregates†** | | | |
| M1 (8/5/85) | 601.9 | + 14.3‡ | + 9.0‡ |
| M2 (July '85) | 2,490.3 | + 10.4 | + 9.2 |
| M3 (July '85) | 3,114.1 | + 7.6 | + 8.8 |
| Domestic Nonfinancial Debt (1st Q'85) | 6,147.0 | + 11.3 | + 13.6 |

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

## New York Money Market

| Offering Rates 8/16/85 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡U.S. Treasury Bills | 7.28% | 7.38% | 7.53% |
| * Federal Agencies | 7.62 | 7.81 | 8.47 |
| * Municipal Notes—High Grade (46% Taxable Equivalent) | 9.26 | 9.72 | 10.00 |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market—Prime | 7.87 | 8.05 | 8.38 |

| ‡Finance Company Paper—Prime | | ‡* Bankers' Acceptances | |
|---|---|---|---|
| 5- 14 days | 7.80% | Sep. | 7.75% |
| 15- 29 days | 7.80 | Oct. | 7.75 |
| 30- 59 days | 7.80 | Nov. | 7.74 |
| 60- 89 days | 7.75 | Dec. | 7.74 |
| 90-179 days | 7.75 | Jan. | 7.78 |
| 180-239 days | 7.80 | Feb. | 7.80 |
| 240-270 days | 7.80 | | |

| ‡Industrial Paper—Prime | | | |
|---|---|---|---|
| 30- 89 days | 7.78% | †Federal Funds Effective Rate | 8.25% |
| 90-120 days | 7.75 | | |

‡Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 2nd Q'85 | $ 3,854 | $ 3,811 | $ 3,645 |
| Gross National Product (1972 Dollars)* | 2nd Q'85 | $ 1,671 | $ 1,664 | $ 1,639 |
| Percent Change, Annual Rate | 2nd Q'85 | 1.7 | 0.3 | 7.1 |
| Change in Consumer Prices* | Jun '85 | 2.4% | 2.4% | 2.4% |
| Change in Producer Prices* | Jul '85n | 3.6% | – 2.4%r | 2.4% |
| Civilian Employment (Thousands of Persons)† | Jul '85 | 106,862 | 106,370 | 105,377 |
| Unemployment as % of Civilian Labor Force† | Jul '85 | 7.3% | 7.3% | 7.5% |
| Personal Income* | Jun '85 | $ 3,187 | $ 3,170 | $ 3,007 |
| Leading Indicators Composite Index (1967=100)† | Jun '85 | 168.5 | 166.9 | 166.7 |
| Industrial Production Index (1977=100) † | Jul '85n | 124.9 | 124.7r | 123.2 |
| Net Change in Consumer Installment Credit † | Jun '85n | $ 6.79 | $ 9.04 | $ 7.08 |
| U.S. Merchandise Trade Balance † | Jun '85 | –$ 13.42 | –$ 12.67 | –$ 8.76 |
| Plant and Equipment Expenditures* | 3rd Q'85 | $392.61(a) | $385.31(a) | $361.12 |
| Private Housing Starts (Thousands of Units)* | Jul '85n | 1,654 | 1,694r | 1,730 |
| New Construction Expenditures* | Jun '85 | $ 342.8 | $ 340.5 | $ 317.8 |
| Total Business Inventories † | Jun '85n | $ 580.1 | $ 577.8r | $ 552.4 |
| Total Business Sales † | Jun '85n | $ 419.2 | $ 428.3r | $ 414.0 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

from its recent peaks. If it continues to move lower, we should be able to slow the growth of our foreign debt. Our merchandise trade deficit will begin to shrink as our exports become cheaper overseas while price tags on imported goods rise.

### . . . To Cut Our Trade Deficit

While waiting for this to occur, we should try to reduce our trade deficit by other means—although not by the sledgehammer approach of across-the-board protectionist legislation. First, of course, we must slash our domestic budget deficit. This way, we'll cut the demand for dollars, lower interest rates, and allow other currencies to strengthen in the process. For their part, other countries should promote private and public investment through tax cuts, easing their restrictive fiscal policies. In other words, when it comes to economic policy, other countries should emulate us, while we try to become more like them.

Of course, free trade also means fair trade. Our businessmen must be given the same chance at cracking other countries' markets as their businessmen have here. In addition, some adjustment should be made for wage differences between the U.S. and the low-wage nations to ensure that wage competition doesn't result in dragging down our living standards while we pull theirs up.

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Time Deposits of $100,000 or more Weekly Reporting Banks** | | | |
| Nationwide (7/31/85) | 153,553 | – 445 | – 3,952 |
| New York City (8/7/85) | 32,726 | + 268 | – 2,942 |
| **Commercial Paper** (8/7/85) | 267,127 | + 1,264 | +45,518 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (7/31/85) | 253,502 | + 1,548 | + 7,334 |
| New York City (8/7/85) | 60,208 | – 173 | – 4,478 |

**Total Loans and Leases Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (7/31/85) | 681,921 | + 7,033 | + 58,682 |
| New York City (8/7/85) | 148,131 | – 1,573 | + 10,213 |

## Financial Markets

| | Friday 8/16/85 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 7.34% | – .03 | – 3.32 |
| 180-Day Bills† | 7.65 | – .09 | – 3.63 |
| Longest Bills† | 7.96 | – .01 | – 3.78 |
| **Recent Issues:** | | | |
| 8⅞s 7/31/87 | 8.84 | – .09 | |
| 9⅝s 6/30/89 | 9.47 | – .11 | |
| 10½s 8/15/95 | 10.24 | – .13 | |
| 10⅝s 8/15/15 | 10.53 | – .08 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (8/15/85) | 9.12% | + .10 | – 0.90 |
| Blue List Total ($ Million) | $1,991 | – $174 | + $ 595 |
| 30-Day Visible Supply ($ Million) | $4,509 | + $432 | + $ 872 |
| Total | $6,500 | + $258 | + $1,467 |
| **Corporates:** | | | |
| Moody's Aa Composite (8/15/85) | 11.49% | – 0.7 | – 1.96 |
| 30-Day Visible Supply ($ Million) | $1,608 | – $830 | + $1,106 |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 1,312.72 | – 8.07 | + 100.32 |
| Transportation | 666.78 | – 13.11 | + 152.07 |
| Utilities | 157.21 | + 2.15 | + 28.52 |
| 65 Stocks | 542.66 | – 3.76 | + 73.35 |
| **Standard and Poor's 500 Stocks** | 186.10 | – 2.22 | + 21.96 |
| **N.Y.S.E. Composite Index** | 107.92 | – 1.14 | + 13.50 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 83,666 | – 9,984 | + 250 |

* 46% Taxable equivalent 16.89%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 8/16/85 | Week Ago |
|---|---|---|
| Overnight | 8.19% | 7.50% |
| 1 month | 7.94 | 7.81 |
| 3 month | 8.06 | 8.00 |
| 6 month | 8.25 | 8.25 |
| 1 year | 8.63 | 8.56 |
| **EURODOLLAR BONDS** | | |
| **Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 10.30% | 10.40% |
| Long Term (7 to 15 yrs.) | 11.00 | 11.03 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (8/16/85) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .01785 | 56.0100 |
| Canada | .7394 | 1.3525 |
| Denmark | .1003 | 9.9725 |
| France | .1184 | 8.4475 |
| Germany | .3620 | 2.7628 |
| Italy | .0005402 | 1851.00 |
| Japan | .004224 | 236.75 |
| Mexico | .002967 | 337.00 |
| Netherlands | .3216 | 3.1097 |
| Switzerland | .4411 | 2.2670 |
| U.K. | 1.3995 | .7145 |

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